

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Springport / Clarence Regional Fire Board</b>	County <b>Jackson</b>
Audit Date <b>2/8/06</b>	Opinion Date <b>6/30/06</b>	Date Accountant Report Submitted to State: <b>8/4/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

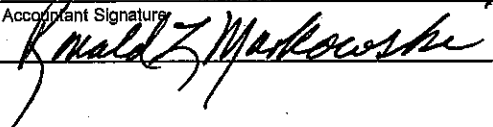
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>Markowski &amp; Company CPA's</b>			
Street Address <b>2880 Spring Arbor Road</b>	City <b>Jackson</b>	State <b>MI</b>	ZIP <b>49203</b>
Accountant Signature 		Date <b>8/4/06</b>	

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2006**

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Springport/Clarence Regional Fire Board  
Springport, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Springport/Clarence Regional Fire Board** as of February 28, 2006, and for the year then ended. These financial statements are the responsibility of the Springport/Clarence Regional Fire Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

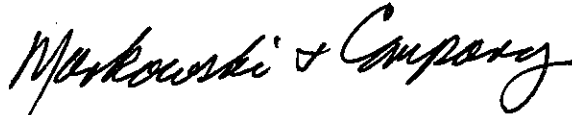
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The budgetary comparison information on page 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Springport Clarence Regional Fire Board as of February 28, 2006, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Springport/Clarence Regional Fire Board  
Independent Auditor's Report  
Page Two

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY CPAs  
June 30, 2006

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**GOVERNMENTAL FUNDS BALANCE SHEETS/STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2006**

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 41,481	-	\$ 41,481
Accounts receivable	20,675	-	20,675
Prepaid insurance	22,582	-	22,582
Equipment, (net of depreciation)	-	337,642 (a)	337,642
<b>Total assets</b>	<b>\$ 84,738</b>	<b>\$ 337,642</b>	<b>422,380</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 3,534	-	3,534
Accrued payroll	7,099	-	7,099
<b>Total liabilities</b>	<b>10,633</b>	<b>-</b>	<b>10,633</b>
<b>FUND BALANCES:</b>			
Reserved	22,582		
Unreserved/Undesignated	51,523		
<b>Total fund balance</b>	<b>74,105</b>		
<b>Total liabilities and fund balance</b>	<b>\$ 84,738</b>		
<b>NET ASSETS:</b>			
Invested in capital assets		337,642	337,642
Unrestricted		-	74,105
<b>Total net assets</b>		<b>\$ 337,642</b>	<b>\$ 411,747</b>

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

At February 28, 2006, equipment can be summarized as follows:

Equipment at cost	\$ 365,767
Less: Accumulated depreciation	(28,125)
	<u>\$ 337,642</u>

The accompanying notes are an integral part of these financial statements.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGED IN FUND BALANCES**  
**- GOVERNMENTAL FUND / STATEMENT OF ACTIVITIES**  
**FEBRUARY 28, 2006**

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF ACTIVITIES
<b>REVENUES</b>			
Local unit contributions	\$ 39,250	\$ -	\$ 39,250
Fire and rescue	109,200	-	109,200
Interest income	197	-	197
Donated Equipment	303,928	-	303,928
Grants	17,052	-	17,052
Total revenues	<u>469,627</u>	<u>-</u>	<u>469,627</u>
<b>EXPENDITURES</b>			
Firefighter Wages	39,320	-	39,320
Training Wages	11,441	-	11,441
Administrative Wages	1,667	-	1,667
Social security	7,539	-	7,539
Office supplies	765	-	765
Professional fees	990	-	990
Gasoline & Oil	3,782	-	3,782
Mileage Reimbursement	2,270	-	2,270
Utilities	8,365	-	8,365
Repairs and maintenance	11,749	-	11,749
Repair and maintenance - Radios	1,790	-	1,790
Training supplies	2,054	-	2,054
Insurance	29,130	-	29,130
Insurance Building	419	-	419
Miscellaneous	2,306	-	2,306
Depreciation	-	25,724 (a)	25,724
Capital outlay	321,361	(321,361) (a)	-
Wages and operating expenses	<u>444,948</u>	<u>(295,637)</u>	<u>149,311</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>24,679</b>	<b>295,637</b>	<b>320,316</b>
<b>FUND BALANCES, Net Assets - Beginning</b>	<u>49,426</u>	<u>42,005</u>	<u>91,431</u>
<b>FUND BALANCES, Net Assets - Ending</b>	<u><u>\$ 74,105</u></u>	<u><u>\$ 337,642</u></u>	<u><u>\$ 411,747</u></u>

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities.

For the year ended February 28, 2006 these differences can be summarized as follows:

Add: Depreciation Expense	\$ 25,724
Subtract: Capital Outlay	(321,361)
	<u><u>\$ (295,637)</u></u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**



**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
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**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Description of Organization's Operations:**

The Springport/Clarence Regional Fire Board (the Fire Board) was formed in September 2003 under the provisions of Act 33 of the Public Acts of 1951 and an agreement between Springport and Clarence Townships. The purpose of the agreement was to organize a fire department with sufficient equipment and personnel to provide fire protection to the residents of the two townships.

The Springport/Clarence Regional Fire Board is governed by a five member board. Each township board appoints two members; the fifth member is appointed by the four township appointed members, and must be a resident of one of the townships.

**B. Measurement Focus/Basis of Accounting:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Budget and Budgetary Accounting:**

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget was adopted on a cash basis. The difference between the cash basis and modified accrual, which is consistent with the Fire Board's financial reporting, is a material amount. The material difference was because of the donation of two fire trucks, which was recognized as a revenue (Donated Equipment). The budget can be amended by a majority vote of the Fire Board, subject to the approval of the two townships and expense (Capital Outlay) in the modified accrual basis fund financial statements (See Note 5).

**D. Capital Assets:**

All capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental fund financial statements.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**D. Capital Assets: (Continued)**

Capital assets are defined as assets with an initial individual cost of \$1,000 or greater and an estimated useful life of more than one year. Capital assets are recorded at their cost, or fair market value for donated assets. The Springport/Clarence Regional Fire Board elected to begin capitalizing and depreciating capital assets effective March 1, 2004.

The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives.

**E. Fund Equity:**

The unreserved fund balances for governmental funds represent the amount available for financing future operations.

A portion of the fund balance has been reserved and not available for spending. This amount equals the insurance premiums paid during the current fiscal year, for insurance coverage in the next fiscal year (prepaid insurance).

**F. Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Risk Financing:**

The Fire Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the year.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**BUDGET VIOLATIONS:**

Public Act #621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Fire Board's actual and budgeted expenditures for the budgetary funds have been shown on a functional basis. To provide a more accurate picture of the Fire Board's operating costs, certain revenues and expenditures have been reclassified.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (Continued)**

**BUDGET VIOLATIONS: (continued)**

As an example, training costs are budgeted as one item, while the financial statements break these costs into wages and supplies. Grant expenses have been allocated to the appropriate function (training or capital outlay) in the financial statements. For determining variations to be considered as violations of Public Act 621, the budgeted amounts were treated as spread to the appropriate items. For example, the \$11,442 over expenditure for training wages is not reported, as it is covered by the \$8,946 under expenditure of training supplies and grant expenses. The capital outlay over expenditure results from \$302,927 of assets donated to the Fire Board by the participating townships. For the year ended February 28, 2006 the Board incurred expenditures which were in excess of the amounts appropriated. These variances are as follows:

	FINAL BUDGET	ACTUAL	OVER EXPENDITURE
Fuel	\$ 3,100	\$ 3,782	\$ (682)
Mileage Reimbursement	\$ -	\$ 2,270	\$ (2,270)
Utilities	\$ 7,700	\$ 8,365	\$ (665)
Repairs & Maintenance	\$ 9,300	\$ 11,278	\$ (1,978)
Repair & Maintenance - Radios	\$ 1,500	\$ 1,790	\$ (290)
Insurance - Building	\$ 300	\$ 419	\$ (119)
Capital Outlay	\$ 5,100	\$ 321,361	\$ (316,261)

**NOTE 3 – CASH:**

The Board's Treasurer is authorized by state law and a resolution from the Board of Trustees to invest surplus funds as follows:

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union, but only if the bank, or credit union meets all criteria as a depository of public funds contained in state law.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash and cash equivalents are as follows:

CASH AND INVESTMENTS	FINANCIAL STMT. AMOUNT	BANK BALANCE
Insured (FDIC)	\$ 43,286	\$ 43,286
Uninsured	-	-
	<u>\$ 43,286</u>	<u>\$ 43,286</u>

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – CASH: (continued)**

**Custodial Credit Risk**

At this time there is no risk of losing cash deposited into the bank account. The Fire Board's total cash balance is below the \$100,000 amount, which would be insured by FDIC standards.

**NOTE 4 – CAPITAL ASSETS:**

The Fire Board elected to capitalize and depreciate only items bought in fiscal 2005 and thereafter in according with GASB 34. Activity for fixed assets which have been capitalized by the Fire Board is summarized below:

	BALANCE 03/01/05	ADDITIONS	DELETIONS	BALANCE 02/28/06
Machinery & equipment	\$ 44,406	\$ 321,361	\$ -	\$ 365,767
Accumulated Depreciation	(2,401)	-	(25,724)	(28,125)
Total	\$ (2,401)	\$ 321,361	\$ (25,724)	\$ 337,642

**NOTE 5 – PURCHASE OF NEW FIRE TRUCKS:**

During the fiscal year ended February 28, 2006, Springport and Clarence Townships financed the acquisition of two new fire trucks. \$196,506 of the total cost of \$206,080 for a new pumper and \$107,422 for a rescue vehicle were paid directly to the manufacturer by the townships.

The Fire Board recognized Donated Equipment revenue of \$303,928 and capital outlay expenditure of \$303,928 in the fund financial statements. These vehicles are titled in the Fire Board's name. The Fire Board has no responsibility for debt, if any, incurred by the townships to finance these purchases.

**NOTE 6 – LEASE COMMITMENTS:**

The Fire Board has an operating lease with the Village of Springport for its fire station. There is no set expiration date, and the rent is set at \$1 annually. Rent paid by the SCFB during the year ended February 28, 2006 totaled \$1.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 91,430	\$ 91,430	\$ 91,430	\$ -
Resources (Inflows)				
Local unit contributions	37,400	40,000	39,250	(750)
Fire and rescue runs	81,000	87,000	109,200	22,200
Interest income	200	100	197	97
Miscellaneous	300	-	-	-
Donated Equipment	-	-	303,928	303,928
Grants	-	16,552	17,052	500
Subtotal - Current revenues	118,900	143,652	469,627	325,975
Amounts available for appropriation	210,330	235,082	561,057	325,975
Charges to Appropriations (Outflows)				
Officers salary	8,000	8,400	7,162	1,238
5th Board Member	240	240	210	30
Incident wages	26,910	35,500	32,158	3,342
Training wages	-	-	11,441	(11,441)
Treasurers salary	2,000	-	1,457	(1,457)
Social security	7,800	8,000	7,539	461
Office supplies	-	2,000	765	1,235
Professional fees	1,000	1,000	990	10
Gasoline & Oil	1,600	3,100	3,782	(682)
Mileage Reimbursement	-	-	2,270	(2,270)
Utilities	5,400	7,700	8,365	(665)
Repairs and maintenance	10,000	9,300	11,749	(2,449)
Repair and maintenance - Radios	600	1,500	1,790	(290)
Training supplies	12,000	11,000	2,054	8,946
Insurance	27,000	31,000	29,130	1,870
Insurance Building	800	300	419	(119)
Miscellaneous	2,500	2,400	2,306	94
Contingencies	5,050	14,955	-	14,955
Account 206	-	3,800	-	3,800
Capital outlay	8,000	5,100	321,361	(316,261)
Grant Expense	-	16,552	-	16,552
Total Charges to Appropriations	118,900	161,847	444,948	(283,101)
Budgetary Fund Balance-February 28, 2006	\$ -	\$ 73,235	\$ 116,109	\$ 42,874

The accompanying notes are an integral part of these financial statements.

**ACCOUNTING MEMORANDUM  
COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

**SEGREGATION OF DUTIES**

Because the Springport/Clarence Regional Fire Board's administrative staff consists of one person, *proper* segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Springport/Clarence Regional Fire Board. This weakness will be a concern every year.

To counter this weakness, the Board needs to be more involved in financial activities. Approval of bills for payment should take place at each meeting. A copy of the treasurer's report should be attached to the minutes, which indicates the bills to be paid. After Board members have given approval and reviewed the treasurer's report it should be documented in the minutes. Board policy should also establish authority for the Treasurer to pay certain bills, such as utilities, prior to Board meetings. Supporting documentation (invoices, pay sheets, etc.) should be available at the meeting for review.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. When creating the budget the Boards should keep in mind that the financial statements will be done using the modified accrual method, therefore the budget should be based on modified accrual method. This means that revenues for the fiscal year will include changes for February runs, even though the Fire Board doesn't receive this money until March. Accordingly, expenses for the fiscal year will include accruals for February bills received and paid after the fiscal year end, and for February payroll hours paid after fiscal year end. We recommend that the Board continue to monitor and amend the budget as necessary.

**APPROVED VENDOR LIST**

A recent trend in fraud cases has been for the perpetrator to either create a fictitious vendor, or replace a check written to an approved vendor, or replace a check written to an approved vendor with one to someone else. As a means of protecting yourself, we recommend that the Board approve a list of vendors (and limit issuance of checks to only persons or companies named on that list). We would also suggest that a board member independent of the treasurer receive the bank statements and promptly review the transactions and cancelled checks for any unusual activity. Upon completion of this review, the statement should be given to the treasurer for processing.

**CONDITION OF RECORDS**

Part of the capital outlay information was filed at the participating townships. We would recommend copies of capital outlay items, agreements and purchase orders be filed with the fire board records. The accounting records continue to improve and the treasurer is most helpful and cooperative.